



Request for City Council Committee Action from the Department of Finance

Date: November 28, 2011

To: Ways & Means Committee

Referral to: None

Subject: Annual Property Insurance Premium for the Mpls. Convention Center (MCC), Tallmadge Building, and Parking Ramp

Recommendation: To authorize the City's Finance Officer to review options for property insurance for the Convention Center (including the Tallmadge Bldg. and the Parking Ramp) for 1-1-2012 coverage. Accept the XL Insurance quote of \$256,161, plus taxes and surcharges and lock in the binder for the 2012 property coverage. Accept the quote for additional terrorism coverage.

Previous Directives: None

Department Information

Prepared by:

Chris Larson, Director of Facility Service, Mpls. Convention Center, 335-6116

Ellen Velasco-Thompson, Director of Risk Mgmt. & Claims/Finance, 673-3994

Approved by:

Jeff Johnson, Executive Director of the MCC _____

Kevin Carpenter, Chief Financial Officer _____

Steven Bosacker, City Coordinator _____

Presenters in Committee:

Ellen Velasco-Thompson, Director of Risk Mgmt. & Claims

Jeff Johnson, Exec. Director of the Mpls. Convention Center

Chris Larson, Director of Facility Services, Mpls. Convention Center

Marty Mauser, Marsh USA, Inc.

Reviews

- Permanent Review Committee (PRC): Approval pending Date 12-8-2012

Financial Impact

- No financial impact

Community Impact

- No Community impact

Supporting Information

Summary: Ten markets were approached for competitive quotes, yielding five formal quotes and five declinations. One quote was high, one had insufficient coverage, and three had most of the requested coverage at costs ranging between \$255,000 and \$260,000. The most comprehensive quote was from XL Insurance (incumbent) who met all of our coverage specifications, has a cost within \$1,161 of the lowest viable option and includes an offer for a two year rate agreement (with some caveats). The cost of the XL program would be \$256,161 which is \$10,357 (-4.4%) less than was paid for 2011-12. Competition also allowed us to secure several valuable coverage enhancements.

Renewal Strategy: Since the marketplace remains competitive for 'non-cat' placements, it was decided our renewal strategy would be to market the coverage and test the pricing and attempt to improve coverage. We targeted ten markets that either had interest in the past or appeared a good fit for the needs of MCC.

Coverage Enhancements: The renewal specifications developed by MCC and Marsh called several enhancements in an attempt to improve the program through competition. Most notably enhancements pursued were (1) increased Loss Limit (currently \$400 million), (2) Terrorism (\$250 million), Extended Period of Indemnity (60 days) and Extra Expense (\$5 million).

Values: Replacement cost values and updated business interruption estimates were developed by Chris Larson at MCC, resulting in a modest increase in exposures, from \$492.8 to \$499.9 million (+1.4%).

Quote Detail: Of the five quoting markets, three were closely grouped, with prices between \$255,000 to \$259,941. Each was fairly responsive on the 'new' coverages but none was nearly as comprehensive as XL Insurance.

A formal review of the quote details from those (1) most closely meeting the coverage specifications and (2) being the most competitively priced, yielded the following:

XL Insurance: in addition to including a 2-year rate agreement, XL has met every requested coverage specification. Price is slightly higher than one insurer, but only by \$1,161 (+0.5%), making them virtually 'even'.

Recommendation: XL quote has better coverage than any quote received, includes a two year rate guaranty and is priced within ½ of one percent of the lowest cost. XL's engineering services are superior to those provided by any competitor, and staff is very familiar with their personnel and approach. Finally, while XL paid the \$282,000 tornado loss in 2009, you remain a profitable account for them with a 14.3% loss ratio (losses paid divided by premium) since 2005. If we suffered a loss just after moving to a new insurer we would not have the 'money in the bank' that we do with XL. We therefore recommend renewal of the coverage with XL Insurance.

XL Insurance

"Two Year Rate Guaranty" Option

Below are the conditions under which XL could amend the rates at the next renewal.

While there are no formal 'handcuffs' preventing MCC from marketing their program next year, it is strongly recommended that if you accept this offering MCC not market the program next year. As stated above, Marsh's view of the property market is that we will see rate increases over the next 12-months and we view this as a very serious, long term commitment by XL to MCC.

- a. Loss Ratio of 40% or more. The Loss Ratio shall be defined as a percentage which (i) the sum of all gross losses paid, reserved or incurred during the preceding policy term, bears to (ii) the XL expiring Gross Renewal Premium. The Loss Ratio will be computed on a global basis and shall include gross losses and Gross Renewal Premium applicable to any local policy (ies) issued to the Convention Center by XL or its representative companies. However, any proportion of premium or claims paid, reserved or incurred under local policies which are retained by any compulsory local scheme is excluded from the calculation of the Loss Ratio. Losses and premium(s) associated with coverage for terrorism are excluded from the Loss Ratio Calculation.
- b. A loss of or substantial change in capacity by either termination or substantial reduction of XL's net insurance capacity as evidenced by a change in XL's corporate policy or internal guidelines.
- c. A loss or substantial change in capacity by either termination or substantial reduction of XL's reinsurance, including treaty and facultative reinsurance and the reinsurance available through the Terrorism Risk Insurance Act of 2002, or as may be amended or renewed.
- d. A change in financial and/or operational condition of XL's reinsurers which negates their approval by XL or which adversely affects a reinsurer's ability to honor its obligations to XL.
- e. An Increase in hazard relative to the Convention Center's property, including catastrophic, natural catastrophic or terrorism of any kind whatsoever, or any other material change in the risk assumed by XL.
- f. A demonstrated failure by the Convention Center to comply with any Federal, State or local fire, health, safety, building or construction regulation, law or ordinance
- g. There is a material change in the legislation, enactment, subordinate legislation, law, regulation, decree, treaty or instrument in force, in any country or territory to which indemnity provided applies. Or there is a material change in the interpretation of any such legislation by any court tribunal, arbitration, government or regulatory body, or ombudsman which has a material effect on the scope of coverage or indemnity provided by the policy or the risks to which XL is exposed.
- h. A material change in the financial condition of the Convention Center such as bankruptcy, liquidation, or voluntary or forced receivership, where permitted by law or statute.